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康師傅控股

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

康師傅控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0322)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2020

SUMMARY

RMB'000	For the six months ended 30 June		
	2020	2019	Change
• Revenue	32,934,421	30,495,309	↑ 8.00%
• Gross margin	33.43%	31.93%	↑ 1.50 ppt.
• Gross profit of the Group	11,009,724	9,736,448	↑ 13.08%
• EBITDA	5,166,659	4,154,177	↑ 24.37%
• Profit for the period	2,653,381	1,801,832	↑ 47.26%
• Profit attributable to owners of the Company	2,380,431	1,503,085	↑ 58.37%
• Earnings per share (RMB cents)			
Basic	42.33	26.74	↑ 15.59 cents
Diluted	42.28	26.72	↑ 15.56 cents

As at 30 June 2020, cash and cash equivalents was RMB23,307.312 million, representing an increase of RMB5,876.925 million when compared to 31 December 2019. Gearing ratio was -45.62%.

2020 INTERIM RESULTS

The Board (the “Board”) of Directors (the “Directors”) of Tingyi (Cayman Islands) Holding Corp. (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019. These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company (the “Audit Committee”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 June 2020

	<i>Note</i>	January to June 2020 <i>(Unaudited)</i> <i>RMB'000</i>	January to June 2019 <i>(Unaudited)</i> <i>RMB'000</i>
Revenue	2	32,934,421	30,495,309
Cost of sales		(21,924,697)	(20,758,861)
Gross profit		11,009,724	9,736,448
Other revenue		307,200	245,532
Other net income		342,648	356,766
Distribution costs		(6,499,889)	(6,345,585)
Administrative expenses		(1,128,172)	(1,189,274)
Other operating expenses		(277,379)	(317,740)
Finance costs	4	(214,470)	(205,665)
Share of results of associates and joint ventures		125,424	270,711
Profit before taxation	4	3,665,086	2,551,193
Taxation	5	(1,011,705)	(749,361)
Profit for the period		<u>2,653,381</u>	<u>1,801,832</u>
Profit attributable to:			
Owners of the Company		2,380,431	1,503,085
Non-controlling interests		272,950	298,747
Profit for the period		<u>2,653,381</u>	<u>1,801,832</u>
Earnings per share	6	<i>RMB</i>	<i>RMB</i>
Basic		42.33 cents	26.74 cents
Diluted		42.28 cents	26.72 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2020

	January to June 2020 <i>(Unaudited)</i> RMB'000	January to June 2019 <i>(Unaudited)</i> RMB'000
Profit for the period	2,653,381	1,801,832
Other comprehensive loss		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value changes in equity instruments designated as at fair value through other comprehensive income	—	(64)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Exchange differences on consolidation	(165,860)	(6,823)
Other comprehensive loss for the period	(165,860)	(6,887)
Total comprehensive income for the period	<u>2,487,521</u>	<u>1,794,945</u>
Total comprehensive income attributable to:		
Owners of the Company	2,217,252	1,491,002
Non-controlling interests	270,269	303,943
	<u>2,487,521</u>	<u>1,794,945</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	<i>Note</i>	At 30 June 2020	At 31 December 2019
		(Unaudited)	(Audited)
		<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Investment properties		1,771,500	1,771,500
Property, plant and equipment		22,141,695	23,013,991
Right-of-use assets		3,832,490	4,025,124
Intangible assets		182,596	183,409
Goodwill		97,910	97,910
Interest in an associate		154,377	139,537
Interest in joint ventures		956,048	889,065
Financial assets at fair value through profit or loss		1,551,984	1,153,541
Equity instruments designated as at fair value through other comprehensive income		117,066	115,614
Deferred tax assets		425,180	407,171
Long-term time deposits		1,575,000	725,000
		32,805,846	32,521,862
Current assets			
Inventories		3,379,946	3,445,075
Trade receivables	8	1,781,594	1,669,525
Tax recoverable		—	40,349
Prepayments and other receivables		2,489,897	2,852,469
Pledged bank deposits		82,502	32,830
Bank balances and cash		23,224,810	17,397,557
		30,958,749	25,437,805
Total assets		63,764,595	57,959,667

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		At 30 June 2020	At 31 December 2019
	<i>Note</i>	(Unaudited) RMB'000	(Audited) RMB'000
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		235,408	235,401
Share premium		726,200	724,384
Reserves		17,512,440	18,618,789
Total capital and reserves attributable to owners of the Company		<u>18,474,048</u>	<u>19,578,574</u>
Non-controlling interests		<u>3,354,873</u>	<u>3,467,533</u>
Total equity		<u>21,828,921</u>	<u>23,046,107</u>
Non-current liabilities			
Financial liabilities at fair value through profit or loss		9,674	9,674
Long-term interest-bearing borrowings		4,348,735	4,920,078
Lease liabilities		195,003	287,892
Other non-current liabilities		40,000	40,000
Employee benefit obligations		153,174	157,066
Deferred tax liabilities		1,324,784	1,191,422
		<u>6,071,370</u>	<u>6,606,132</u>
Current liabilities			
Trade payables	9	9,439,424	7,678,035
Other payables and deposits received		13,094,415	10,761,450
Current portion of interest-bearing borrowings		10,530,939	7,454,381
Lease liabilities		126,028	199,664
Advance payments from customers		2,168,991	1,809,935
Taxation		504,507	403,963
		<u>35,864,304</u>	<u>28,307,428</u>
Total liabilities		<u>41,935,674</u>	<u>34,913,560</u>
Total equity and liabilities		<u>63,764,595</u>	<u>57,959,667</u>
Net current assets (liabilities)		<u>(4,905,555)</u>	<u>(2,869,623)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated interim financial statements should be read in conjunction with the 2019 annual financial statements. The accounting policies adopted in preparing the condensed consolidated interim financial statements for the six months ended 30 June 2020 are consistent with those in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except for the adoption of the new/revised standard of Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2020 as described below.

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform

The adoption of these amendments to HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

2. Segment information

Segment results

	For the Six Months ended 30 June 2020				Total (Unaudited) RMB'000
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	
Revenue					
Revenue from contract with customers	14,905,255	17,603,780	383,541	—	32,892,576
Timing of revenue recognition:					
Recognised at a point in time	14,905,255	17,603,780	325,095	—	32,834,130
Recognised over time	—	—	58,446	—	58,446
	14,905,255	17,603,780	383,541	—	32,892,576
Revenue from other sources:					
Rental income from investment properties	—	—	41,845	—	41,845
Inter-segment revenue	5,007	12,840	800,498	(818,345)	—
Segment revenue	14,910,262	17,616,620	1,225,884	(818,345)	32,934,421
Segment results after finance costs	2,321,078	1,351,220	(141,993)	9,381	3,539,686
Share of results of an associate and joint ventures	44	131,361	(5,981)	—	125,424
Unallocated expenses, net	—	—	(24)	—	(24)
Profit (loss) before taxation	2,321,122	1,482,581	(147,998)	9,381	3,665,086
Taxation	(627,062)	(371,277)	(13,366)	—	(1,011,705)
Profit (loss) for the period	1,694,060	1,111,304	(161,364)	9,381	2,653,381

2. Segment information (Continued)

	For the Six Months ended 30 June 2019				
	Instant noodles (Unaudited) RMB'000	Beverages (Unaudited) RMB'000	Others (Unaudited) RMB'000	Inter-segment elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue					
Revenue from contract with customers	11,541,967	18,358,830	547,309	—	30,448,106
Timing of revenue recognition:					
Recognised at a point in time	11,541,967	18,358,830	332,137	—	30,232,934
Recognised over time	—	—	215,172	—	215,172
	11,541,967	18,358,830	547,309	—	30,448,106
Revenue from other sources:					
Rental income from investment properties	—	—	47,203	—	47,203
Inter-segment revenue	1,952	8,530	672,744	(683,226)	—
Segment revenue	11,543,919	18,367,360	1,267,256	(683,226)	30,495,309
Segment results after finance costs	1,244,661	1,102,167	(67,499)	(2,219)	2,277,110
Share of results of an associate and joint ventures	(300)	274,463	(3,452)	—	270,711
Unallocated income, net	—	—	3,372	—	3,372
Profit (loss) before taxation	1,244,361	1,376,630	(67,579)	(2,219)	2,551,193
Taxation	(369,661)	(365,649)	(14,051)	—	(749,361)
Profit (loss) for the period	874,700	1,010,981	(81,630)	(2,219)	1,801,832

Segment information is prepared based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The Company's executive directors assess the performance of reportable segments and resources allocation based on the net profit for the period and the profit (loss) before taxation, share of results of an associate and joint ventures and unallocated income (expenses), net.

2. **Segment information** (Continued)

Segment assets and liabilities

	At 30 June 2020				
	Instant noodles	Beverages	Others	Inter-segment	Total
	(Unaudited)	(Unaudited)	(Unaudited)	elimination	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets	24,571,260	32,185,473	4,383,008	(154,621)	60,985,120
Interest in an associate	—	154,377	—	—	154,377
Interest in joint ventures	926	922,344	32,778	—	956,048
Unallocated assets					1,669,050
Total assets					63,764,595
Segment liabilities	9,368,345	19,200,700	13,959,361	(745,906)	41,782,500
Unallocated liabilities					153,174
Total liabilities					41,935,674

	At 31 December 2019				
	Instant noodles	Beverages	Others	Inter-segment	Total
	(Audited)	(Audited)	(Audited)	elimination	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets	22,790,688	29,095,483	4,010,878	(235,139)	55,661,910
Interest in an associate	—	139,537	—	—	139,537
Interest in joint ventures	882	849,424	38,759	—	889,065
Unallocated assets					1,269,155
Total assets					57,959,667
Segment liabilities	9,294,961	15,805,462	10,482,964	(826,893)	34,756,494
Unallocated liabilities					157,066
Total liabilities					34,913,560

Segment assets include all assets with the exception of interest in an associate and joint ventures and unallocated assets which include investment funds and equity securities recognised in financial assets at fair value through profit or loss or equity instruments designated as at fair value through other comprehensive income. Segment liabilities include all liabilities with the exception of employee benefit obligations.

3. **Seasonality of operations**

Due to the seasonal nature of the beverages segment, higher revenue is usually expected in the second and third quarters. Higher sales during the period from June to August are mainly attributed to the increased demand for packed beverages during the hot season.

4. Profit before taxation

This is stated after charging:

	January to June 2020 (Unaudited) RMB'000	January to June 2019 (Unaudited) RMB'000
Finance costs		
Interest on bank and other borrowings wholly repayable within five years	192,756	178,791
Interest on bank and other borrowings wholly repayable over five years	11,063	14,614
Finance costs on lease liabilities	10,651	12,260
	<u>214,470</u>	<u>205,665</u>
Other items		
Depreciation	1,591,043	1,639,698
Amortisation	3,260	3,153
Impairment loss of property, plant and equipment (included in other operating expense)	61,603	80,834
	<u>1,655,906</u>	<u>1,723,685</u>

5. Taxation

	January to June 2020 (Unaudited) RMB'000	January to June 2019 (Unaudited) RMB'000
Current tax – the PRC Enterprise income tax		
Current period	884,364	621,551
Deferred taxation		
Origination and reversal of temporary differences, net	(23,965)	19,745
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	151,306	108,065
	<u>1,011,705</u>	<u>749,361</u>

The Cayman Islands levies no tax on the income of the Company and the Group.

Hong Kong Profits Tax has not been provided as the Group's entities had no assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2020 and 2019.

The applicable PRC enterprise income tax for the PRC subsidiaries is at the statutory rate of 25% (2019: 25%).

According to the Tax Relief Notice (Cai Shui 2011 no. 58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of PRC ("Western Region") with principal revenue of over 70% generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western Region are entitled to a preferential rate of 15% (2019: 15%).

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends distributed to foreign investors by the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings accumulated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and jurisdiction of the foreign investors. For the Group's PRC subsidiaries, the applicable rate is 10%. Deferred tax liability is provided on the basis that the undistributed net earnings of the Group's PRC subsidiaries that are expected to be distributed in the foreseeable future. The remaining net earnings of the Group's PRC subsidiaries that are not expected to be distributed in the foreseeable future would be subject to additional taxation when they are distributed.

6. Earnings per share

a) Basic earnings per share

	January to June 2020 (Unaudited)	January to June 2019 (Unaudited)
Profit attributable to ordinary equity shareholders (RMB'000)	2,380,431	1,503,085
Weighted average number of ordinary shares ('000)	5,623,861	5,620,600
Basic earnings per share (RMB cents)	42.33	26.74

b) Diluted earnings per share

	January to June 2020 (Unaudited)	January to June 2019 (Unaudited)
Profit attributable to ordinary equity shareholders (RMB'000)	2,380,431	1,503,085
<i>Weighted average number of ordinary shares (diluted) ('000)</i>		
Weighted average number of ordinary shares	5,623,861	5,620,600
Effect of the Company's share option scheme	5,996	4,705
Weighted average number of ordinary shares for the purpose of calculated diluted earnings per share	5,629,857	5,625,305
Diluted earnings per share (RMB cents)	42.28	26.72

7. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: nil).

8. Trade receivables

The majority of the Group's sales is cash-on-delivery. The remaining balances of sales are mainly at credit terms ranging from 30 to 90 days. The aging analysis of the trade receivables (net of loss allowance) based on invoice date, at the end of the reporting period is as follows:

	At 30 June 2020 (Unaudited) RMB'000	At 31 December 2019 (Audited) RMB'000
0 - 90 days	1,700,860	1,568,425
Over 90 days	80,734	101,100
	1,781,594	1,669,525

9. Trade payables

The aging analysis of trade payables based on invoice date at the end of the reporting period is as follows:

	At 30 June 2020 (Unaudited) RMB'000	At 31 December 2019 (Audited) RMB'000
0 - 90 days	8,544,254	6,789,795
Over 90 days	895,170	888,240
	<u>9,439,424</u>	<u>7,678,035</u>

10. Approval of interim financial statements

The interim financial statements of 2020 were approved by the Board of Directors on 24 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO AND INDUSTRY ENVIRONMENT

The Novel Coronavirus Disease (COVID-19) in the first half of 2020 ravaged global economy as a whole. Yet China's economy has shown a strong rebound attributed to the effective and efficient measures taken by the Chinese government. To be more specific, China's GDP reached its bottom in the first quarter of 2020 while resuming increasing by 3.2% in the second quarter. Meanwhile, the PMI maintained above 50 with a positive industrial growth rate. Notably, the instant noodle industry in the overall market achieved a rapid growth year-on-year due to the increasing needs of consumers and the beverage industry has bottomed out and became more stable.

The "New Normal in the Post-COVID-19 Era" has brought about changes in the public's consumption and shopping behaviors. For example, consumption stratification became more apparent as both the per capita disposable income and the per capita consumption declined in the first half of the year. More and more consumers have shifted to online shopping channels at a fast pace with the e-commerce penetration ratio increasing from 26% to 30%. The reduced mobility of the population highlighted the importance of the markets in lower-tier cities and rural areas and there has been an upward trend of consumers' stockpiling amidst the pandemic and preference to home dining and drinking. All in all, these new changes have presented both opportunities and challenges for the Group's growth.

BUSINESS REVIEW

In the first half of 2020, the Group, adhering to its "Consolidate, Reform and Develop" strategy, showed "resilience" and "agility" in the fight against the COVID-19. The Group demonstrated its resilience in its scale advantage, brand strengths, robust operations and cash reserves, which have prompted the Group to resist the risk of market fluctuation. During the pandemic, great efforts were made to ensure epidemic prevention and food safety, as well as to restart production with a fully prepared supply chain to meet consumer demands in a timely manner. Meanwhile, the Group also provided material support for workers at the front line from nationwide medical institutions and government agencies during the pandemic. Taking advantage of the digitalized system and the flattening organization structure and channels, the Group built a close relationship with both consumers and retail outlets and could better understand the changing needs of consumers amid the pandemic timely, thus making targeted decisions and seizing the market opportunities, thanks to the Group's agility.

As a result of its resilience and agility, the Group's profit hit a record high in the first half of 2020, and back to glory. In the first half of 2020, the Group's total revenue reached RMB32.934 billion, a year-on-year increase of 8.00%. Specifically, revenue from instant noodles segment increased by 29.16% while beverage segment decreased by 4.09% year on year. The gross profit margin for the first half of 2020 climbed to 33.43%, a year-on-year increase of 1.50 percentage points. The ratio of distribution costs to revenues decreased by 1.07 percentage points to 19.74% year on year. EBITDA rose by 24.37% to RMB5.167 billion year on year. Thanks to sales growth and gross profit margin expansion, the profit attributable to shareholders of the Group increased by 58.37% to RMB2.380 billion and basic earnings per share increased by RMB15.59 cents to RMB42.33 cents.

In terms of the product-mix, with an emphasis on core economical products, the Group attracted general consumers by launching multi serving sizes and multi-flavors products and satisfied the urgent needs of working class for cost-effectiveness. To meet the long-term consumption needs, the Group steadily launched high-priced products featuring healthiness and forged ahead to draw the attention of the new generation in lower tier cities and the middle class.

With regards to brand strategy, the Group increased investment in online media and stepped up efforts to innovate in the ways the Group had interacted with consumers by combining both online and offline methods. Besides, enhancing the overall brand image remained to be a priority of the Group so as to promote its brand building in a steady and gradual manner. Through cooperation with the China Space Foundation and the Winter Sports Management Center of the General Administration of Sport of China, the Group effectively improved the images of the brand and its categories. Young consumers and families were also attracted along with the improvement of its brand awareness, which was facilitated by means of scenario marketing, omni-media marketing and IP collaboration.

To intensify its endeavors in sales channels, the Group prioritized the development of online channels and fostered the rapid growth of the New Retail Division during the first half of 2020. Meanwhile, in response to the fragmentation trend in sales channels, the Group held on to the channel optimization strategy for improved distribution of channel profits and win-win cooperation with channel partners. What's more, the Group, apart from thoroughly leveraging its competitive edges in traditional channels, has also concentrated on proactively developing diversified channels. Currently, it has realized the changeover from three-tier distribution to direct management of second-tier distributors in most core cities and kept upgrading its services to retail outlets. To attract higher-quality distributors and set up better collaborative partnership with channel partners, the Group has persisted in the promotion of channel sinking and placed a high premium on the lower-tier cities. Yet from a long-term perspective, more efforts have been directed at optimizing the new prospective channels including the Food Service Division and the New Retail Division, for significantly expanding the penetration coverage of the Group's products in retail outlets.

The digitalized operation system has allowed for the Group's smooth progress of production, sales, and logistics during the COVID-19. The Group has made headways in advancing the construction of the shared service center and achieved initial success in data integration. Moreover, trials concerning big data and AI technologies analysis and decision-making have also been underway.

To address the surging needs for instant noodles during the pandemic, the Group has responded swiftly and managed to satisfy consumers' needs in time. Meanwhile, the strategy of supply chain optimization and the promotion of asset-light and asset activation have been advanced, so as to upgrade production distribution and facilitate production lines rebuilding and smart manufacturing.

The Group has made constant efforts to optimize its organizational structure by cutting layers of its management team while recruiting more employees at front levels, in order to get into the market and provide channel customers and partners with better services.

INSTANT NOODLE BUSINESS

In the first half of 2020, both the sales performance and profits of the Group's instant noodle segment hit record highs, showing its competitive advantages as the industry leader. Nielsen's data showed that the sales volume of overall instant noodles market in the first half of 2020 grew by 5.6% year on year, with a year-on-year increase of 11.5% in sales value. During the same period of last year, Master Kong held a market share of 42.9%^① and 45.8%^① respectively in sales volume and sales value. Both of the two indicators registered year-on-year growth and ranked first in the market, indicating that Master Kong's leading position is constantly consolidating.

In the first half of 2020, the Group's revenue from instant noodle segment reached RMB14.910 billion, a year-on-year increase of 29.16%, which made up 45.27% of the total revenue. Due to less sales promotion incentives, product upgrading and production optimization, the gross profit margin of instant noodles reached 30.35%, an increase of 2.19 percentage points year on year. Thanks to revenue growth and gross margin expansion year-on-year, the profit attributable to shareholders of the Group in the instant noodle segment as a whole increased by 93.54% to RMB1.694 billion.

The instant noodle segment timely resumed production and satisfied the increasing market needs by applying big data to coordinate its production and sales, logistics service and the supply of raw materials. At the early stage of the outbreak, the segment prioritized market needs and later launched products with multi-flavors, multi-serving sizes and multi-prices in the comfortably supplied market to fit diverse consumer needs. Under such a circumstance, the segment gained double-digit growth in its sales.

The middle and late stages of the COVID-19 have been accompanied by the growing needs of household consumption. Against this background, the instant noodle segment focused on promoting creative cuisines by interacting with consumers through short videos on social media, with an aim to attract more young consumers and families. In addition, the segment has made further efforts to promote sales and improve its product categories and brand image. First, it enforced strict food safety standards and built a brand image focusing on product safety and high quality by cooperating with the Winter Sports Management Center of the General Administration of Sport of China. Second, it enhanced the brand image of a healthy products provider by advancing its cooperation with China Space Foundation, including launching online food safety science popularization activities at campus during the COVID-19. Third, it organized sports promotion activities to enhance the concept of healthy diet and improve its brand image.

Note^①: Nielsen conducted city coverage enhancement upgrade in first quarter of 2020, and historical market share in sales volume and value have been updated accordingly.

The sales growth of the instant noodle segment was seen across all channels. Amid the COVID-19, the segment gave priority to the supply of products for e-commerce platforms and other modern channels so that products could reach the consumers in the shortest possible time. As a result, sales from e-commerce platforms grew rapidly. In addition, to adapt to the fragmentation in sales channels, the segment upgraded its services in traditional channels and focused on strengthening inventory management and improving delivery efficiency for a win-win cooperation with distributors.

The instant noodle segment has spared no effort to meet huge market needs by upgrading its supply chain on the premise of ensuring product quality and food safety. In addition, the segment continued to reform the supply chain, optimize production distribution, and improve supply chain efficiency through asset disposal, asset activation, production line renovation, and automation technology upgrading.

Super-premium Noodles

To cope with the upgraded consumption needs of the middle class, the instant noodle segment launched the “Express Chef’s Noodle” series, which had rapid sales growth over the past two years. Since the “Express Chef’s Noodle” series were put into the market, the needs in different consumption scenarios have been satisfied through modern channels, such as e-commerce platforms, convenience stores and supermarkets. For example, “Express Bowl Noodle” is specifically designed for the consumption scenario of work resumption amid the pandemic, “Express Self-heating Noodle” for going out, and “Cooked Express Noodle” (whose family pack was launched this June) for household consumption. What’s more, the segment acted as the sole instant nutrient food provider of the Winter Sports Management Centre of the General Administration of Sport of China and offered its partner a customized edition of “Express Chef’s Noodle Specialty for Chinese Winter Sports Athletes”, which enhanced its brand image.

High-priced and Premium Noodles

High-priced and premium noodles represent Master Kong’s targeted core markets. Since the outbreak of COVID-19, the instant noodle segment has ensured the supply of core products, notably those economical and large-sized packages, and later satisfied the diverse needs of consumers by providing products with various flavors and sizes in the stably supplied market. As a result, sales have grown in double-digits during the first half of 2020 as well as achieved remarkable growth in sales of packet and large-sized products due to the increasing household consumption needs amid the COVID-19.

In response to the pandemic, the instant noodle segment focused on attracting more young consumers and families by releasing short videos about creative cuisines on social media. In addition, it strengthened IP cooperation with Kung Fu Panda, Game for Peace and Douro Mainland and the like.

The instant noodle segment launched its new product “Handmade Noodle”, the upgraded edition of “Dry Noodles” and new sizes of packet instant noodles. “Handmade Noodle” is to be served cooked, features a chewy texture and mouthfeel which fit the growing needs of household consumption scenarios and the needs for quality from the new generation and the middle class. “Dry Noodle” series were updated with new noodle bodies, seasonings and packages. And the water filters were also innovatively redesigned to make bowl noodles more consumer-friendly and packet noodles better fit household consumption scenarios.

Mid-priced Noodles/Snack Noodles

Facing the increasingly apparent consumption segmentation trend after the COVID-19, the instant noodle segment resorted to mid-priced noodles to meet the need for cost-effectiveness among consumers in lower tier cities and rural areas. The segment launched the large-sized product “50% Plus Hunger-feed” and thus became more competitive in the segmented market of mid-priced and large-sized instant noodles. The snack noodle “Flavored and Crunchy” attracted a large number of students owing to IP cooperation with “Kung Fu Panda”, social media marketing and the debut of new-flavored products such as “Chicken Broth Snack Noodles”. Notably, the sales of “Flavored and Crunchy” hit a new high in June.

BEVERAGE BUSINESS

The first half of 2020 witnessed a slight decline in the performance of the Group's beverage segment due to the impact of the coronavirus outbreak, yet a strong rebound was seen in the second quarter. Besides, the year-on-year market share of its main categories maintained at stable levels and the market share in the second quarter outperformed that in the first quarter. Nielsen's data suggested that the sales volume and sales value of China's beverage industry[®] declined by 7.5% and 9.0% respectively year on year. In terms of sales volume, Master Kong had the largest market share of 42.9% in ready-to-drink (RTD) tea segment (including milk tea), a second largest market share of 15.2% in juice segment, a market share of 5.2% in bottled water segment and a second largest market share of 12.2% in RTD coffee segment. According to the monitoring data from a third party research company, in terms of sales volume, the overall market share of Pepsi carbonated drinks was 32.9% in the first half of 2020, ranking No. 2 in the market.

In the first half of 2020, the overall revenue from beverage business reached RMB17.617 billion, a year-on-year decrease of 4.09%, which accounted for 53.49% of the Group's total revenue. During the period, the gross profit margin of the beverage business increased by 1.54 percentage points to 35.78%, mainly due to the product-mix optimizing and product upgrading, along with declining prices of some raw materials. Thanks to the increased gross profit margin, the reduction of other operational costs and the decreasing proportion of non-controlling interests, the profit attributable to shareholders of the Group reached RMB838 million, up 18.73% year on year.

During the COVID-19, the segment focused on core categories and developed new retail channels. In particular, the segment stressed on interacting with consumers through online channels as consumers' mobility was significantly restricted. In the first quarter, spring sales front loading was reduced as appropriate to ensure healthy inventory level and fresh products available to consumers. Later as the coronavirus tension eased, the segment adjusted its product-mix and launched new categories of premium products to meet the upgraded needs for nutrition and health amid the COVID-19. Multiple channels continued to be developed. Apart from laying high emphasis on new retail channels, the segment expanded its physical store network in core cities as well as the scope of service. The segment has realized direct management of second-tier distributors in more than 100 core cities and facilitated win-win partnerships with distributors in lower-tier cities. Meanwhile, the capital expenditures in refrigerators were scaled up appropriately to meet the needs arising in the high seasons.

RTD Tea

The RTD tea segment gained popularity in the mass market with a focus on core products. During the second quarter of 2020, the segment increased investment in branding and made itself a well-received brand among young consumers and families. The brand image of "Master Kong Ice Tea" series became synonymous with youth and fashion after choosing the superstar Kris Wu as the new spokesperson, who made it to reinterpret the brand concept of "Enjoying Ice and Fun". The "Jasmine" series built a fragrant and refreshing brand image resembling a jasmine through IP cooperation. The "Green Tea" series continued to enhance its fresh and vigorous brand image by means of conducting cooperation with hotly-debated IP and working with popular stars in the Millennial Generation. The newly-launched "Master Kong Oolong Tea" fittingly fed the thirst for new products discerned as the COVID-19 tension eased and met the needs of the new generation of urban consumers. The high-end "Sugar-free Tea" series catered to the middle class's needs for health and exquisite by emphasizing the idea that "slow extraction at low temperature for a long time with no added artificial flavor". In addition, the "Master Kong Chacanting" was also sustained.

Carbonated Soft Drinks

Pepsi's bottled carbonated soft drink segment has been devoted to meeting the needs under different consumption scenarios by offering products of new flavors, multi-serving sizes, limited editions and less sugar to consumers. During the coronavirus, the segment adjusted its promotion and marketing strategies based on the changes taken place in consumption behaviors, psychology and places, thus seizing the special market opportunities to increase its overall sales volume. Pepsi kicked off 2020 Chinese New Year campaign themed on "Bring Happiness Home" and released "2020 Year of The Rat Limited-edition Bottle" as well as other festive products. By fully capitalizing on the consumption scenario of the new year, Pepsi succeeded in seizing the opportunities of the stay-at-home economy amid coronavirus, and resulted in remarkable sales performance in products of different sizes. When it came to the second quarter, the "Pepsi Osmanthus Flavor" was launched and set off a craze for traditional fashion among the public. Boasting popularity and topicality, its sales opportunities were soon created. The "Pepsi No Sugar" series sustained its "Cool Pepsi Black" brand image and released new packaging of "Concept 2.0". The sales of raspberry-flavored products grew rapidly as the idea of double mixed flavors was further promoted. "Mirinda" series chose Song Zuer and Huang Minghao as its new spokespersons and undertook exclusive title sponsorship for Mango TV's online variety show "Great Escape Season 2". At the same time, various activities themed on "Great Escape" were carried out to increase consumers' preference to the brand, including online room escape challenge and offline theme activity "The great fruit explodes after having a sip". During the period, the first mix-flavored juice "Passion Fruit & Pineapple Mix Flavor" was launched to better meet the brand needs of "Explosive Fruity Fun". The "7 up" series rolled out its mixing-style drink "7 up Mixology" which were well integrated into the dining scenarios. Meanwhile, the segment gave publicity for the first appearance of the new packaging of FIDO DIDO 2.0 and seized the market opportunities generated by the launch of "7 up Moji7o Grapefruit Flavor" to better advance the product differentiation strategy.

Juices

The leading position of Chinese juice drinks was further consolidated when the sale of Western-style juices gradually recovered. As catering consumption recovered, the segment managed to expand consumption scenarios concerning dining through the multi-serving sizes and multi-flavors strategy. In tune with traditional Chinese food culture, the "Rock Candy Pear" series were characterized by a therapeutic brand image of constant moisture provider. Moreover, its consumption scenarios, mainly for soothing and moistening the throat, were also elaborated through cooperating with prestigious musicians. The "Traditional Drink Sweet-Sour Plum Juice" integrated modern juice-making process into Chinese classic drink making. With distinguished hosts as its spokespersons, its effects of quenching thirst and cleansing palate were magnified, which bolstered strong sales growth. "Juice Master", the brand IP of the Western-style juice "Master Kong Juices", stepped up comprehensive upgrading and brand marketing, and strove to build an optimistic and joyful brand image. In its promotion, the strategy of multi-serving sizes was adopted to boost sales and the consumers were encouraged to enjoy drinking it under various consumption scenarios. "NutriLight Fruits", based on its main flavor of "honey pomelo", went with other flavored products including "Mango Yogurt Flavor" and collaborated with acclaimed TV stars through new media channels to draw the attention of young consumer groups. "Tropicana" and "Tropicana 100%", apart from concentrating on core sales channels, kept interacting with consumers to increase brand awareness.

Bottled Water

In the bottled water segment, the Group placed its emphasis on the economical products, and managed to exploit the market for the mid-priced ones while developing high-end mineral water. Yet the priority was given to expanding household needs for large-sized products. The economical product, "Master Kong Bottled Drinking Water", with the world-renowned volleyball player and coach Lang Ping as the spokesperson, conveyed a brand image of "The Best Choice for Safety and Health" and thus established itself as a national brand featuring affordable prices. In terms of the mid-priced ones, the newly-released "Drink Boiled Water" built its brand image by giving full play to its value of offering mild, safe and sweet water which was sterilized at an ultra-high temperature of 135°C. And "Aquafina" enhanced its popularity through both online and offline marketing activities. Besides, the high-end water "Han Yang Quan" was relaunched with its upgraded packaging and managed to strengthen its positioning of "Being Natural, Precious, and Nutritious" to meet the middle class's demands for mineral water. During the COVID-19 pandemic, the 4.5-liter package of mineral water reported ultrahigh-speed sales growth for fulfilling household needs and became an essential high-quality daily water product for the middle class.

Coffee Drinks/Functional Drinks/Probiotics Drinks

The Group boasts a second place in the market share of the overall RTD coffee market, demonstrating a narrowed gap with the first place and widened gap with the third place, according to Nielsen's market data. Against the backdrop of the COVID-19 pandemic, the Group has concentrated on satisfying household needs for coffee. Specifically, Master Kong has laid great emphasis on the medium and high-priced coffee and cooperated with its international strategic partner "Starbucks" to lead the development of the premium market, with a market share of around 60%. What's more, the Group, by promoting "Bernachon Coffee", has expanded its presence in the room-temperature medium and high-priced coffee market. In the future, the "Bernachon Coffee" series will continue to be promoted in core cities in the Yangtze River Delta, the Pearl River Delta, Beijing to establish its brand awareness.

"Wei Chuan Ambient Probiotics Drink" has gained a strong foothold in the Yangtze River Delta. The product, by responding to consumers' needs of nutrition and health as well as advancing IP collaboration with "LINE FRIENDS", a brand with a young and vibrant public image, has successfully attracted the attention of young consumers, increased its popularity, and facilitated sales growth. The newly-launched lactobacillus beverage, "Xiao Lao Duo Duo", has focused on palate cleansing and hydrating while dining, and established a fresh, fat-free and healthy product image.

Gatorade, a functional drink, promoted its brand theme of "Every Drop of Sweat Counts" through communication and cooperation with ordinary people and brought the brand into the lives of common sports enthusiasts. The fire-new "Workout at Home" online scenario marketing approach was put forward during the pandemic. Great significance was attached to conducting sales promotion activities in public squares and parks, as well as QR code promotion activities. When it comes to the offline side, focus was placed on the "sweat-spot" market coverage, intensifying product education and increasing brand influence, so that Master Kong's brand image as the leading sports drink provider would be built effectively.

FINANCING

The Group, with "Cash Is King" as its long-held overall strategy, has been characterized by proficient control of capital expenditures and effective promotion of asset-light and asset activation, which would generate stable net cash inflows. During the first half of the year, the net cash inflow from the Group's operating activities amounted to RMB5.696 billion, and net cash outflow from investing activities reached RMB1.720 billion. In the meantime, a net cash inflow of RMB103 million was reported through the Group's disposal of partial and entire equity interests in two subsidiaries to one independent third party and one connected party, as a result of continuous efforts in asset activation and spinning-off of non-core businesses. Although interest-bearing borrowings may increase temporarily, in the long term, the Group will keep up the efforts to reduce the scale of interest-bearing borrowings by making use of internal resources, so as to facilitate a more flexible and healthier financial structure and further improve its operating foundations.

The Group continued to maintain a sound financial structure through effective control on the balances of trade receivables, trade payables, bank balances and cash as well as inventories. As at 30 June 2020, the Group's total cash and bank balances arrived at RMB23.307 billion, an increase of RMB5.877 billion compared with that of 31 December 2019, featuring abundant cash in hand. The Group's interest-bearing borrowings reached RMB14.880 billion, a growth of RMB2.505 billion from 31 December 2019 to 30 June 2020. Net cash totaled RMB8.428 billion, increasing by RMB3.372 billion compared with that of 31 December 2019. The Group's proportion of the total borrowings denominated in foreign currencies and Renminbi, at the end of the first half of 2020, reported a change from 76% against 24% at the end of 2019 to 82% against 18% and the proportion between the Group's long-term borrowings and short-term borrowings reached 29% against 71%, compared with 40% against 60% at the end of 2019.

As at 30 June 2020, the Group's total assets and total liabilities arrived at RMB63.765 billion and RMB41.936 billion respectively, up by RMB5.805 billion and RMB7.022 billion respectively from 31 December 2019. Meanwhile, the debt ratio of the Group increased by 5.53 percentage points to 65.77% compared with that of 31 December 2019. The gearing ratio dropped from -25.82% as of 31 December 2019 to -45.62% as of 30 June 2020. Noticeably, the total debt in the current period included 2019 final dividend and special dividend (totaling RMB3.331 billion) approved by the annual general meeting of the Group convened on 8 June 2020, and the dividends were paid on 15 July 2020.

During the first half of 2020, the exchange rate of US dollars against Renminbi rose by 1.26%. This fluctuation resulted in the recognition of realized and unrealized exchange gain, amounting to RMB19.880 million in the Group's income statement.

Financial Ratio

	As at 30 June 2020	As at 31 December 2019
Finished goods turnover	17.90 days	16.61 days
Trade receivables turnover	9.48 days	9.97 days
Current ratio	0.86 Times	0.90 Times
Debt ratio (Total liabilities to total assets)	65.77%	60.24%
Gearing ratio (Net debt to equity attributable to owners of the Company)	-45.62%	-25.82%

HUMAN RESOURCES

The Group had 57,956 employees as of 30 June 2020. In the first half of 2020, under the guiding principle of “Down-sized Headquarters and Bigger Operating Units”, the Group continued to improve its organizational structure, optimize its staffing structure and steadily speed up the rejuvenation of the management team, and the recruitment of employees with diverse talents and from domestic households, so as to provide sustained talent support for the Group to realize its strategic objectives.

The Group has made constant efforts to strengthen the echelon building of talents as well as recruit and cultivate qualified personnel of various talents under a more mature system. Thanks to the Young Master Program (YMP), the Group could recruit more outstanding management talents. Besides, in collaboration with 36 higher education institutions and 50 vocational schools nationwide, the Group is expected to inject more fresh blood from the grassroots into the establishment.

The Group has vigorously advanced strategic cooperation with top universities at home and abroad. With the concept of “Joint Talent Cultivation for Mutual Benefits” as the core, the Group has continuously deepened industry-university-research collaboration and conducted further research in the fields of big data, food safety and innovation, with a view to boost higher-quality development of the Group and take in more first-class talents in the future.

CORPORATE SOCIAL RESPONSIBILITY

Adhering to the principle of “Sustainable Operation, Contribution to Society”, the Group has pushed ahead with corporate social responsibility (CSR) management centering on food safety, epidemic prevention and control, energy conservation and environmental protection, and poverty alleviation through education. By virtue of its remarkable efforts and contributions in sustainable development, the Group was included and praised in the *Private Sector Awareness of the Sustainable Development Goals: A Survey Report on Business and Sustainability in China* issued by the United Nations Development Programme (UNDP). As one of the three representatives in the Report, selected from about 100 enterprises surveyed (including China-based foreign enterprises), Master Kong was offered a valuable opportunity to showcase how Chinese enterprises could help facilitate sustainable development on a much broader stage. Looking ahead, the Group will continue to take a variety of actions to proactively implement the United Nations’ Sustainable Development Goals and make unremitting efforts to realize the sustainable development of individuals, families, communities, countries and the Planet Earth.

The Group continued to carry out numerous energy conservation and emission reduction programs as part of its efforts to firmly implement the national energy conservation and environmental protection policy. In terms of energy conservation, the Group trimmed its energy consumption via optimizing the electricity supply and control system, utilized renewable energy for lighting and conducted energy management system certification. To reduce emission, the biological treatment technology was employed in noodle production facilities, which substantially reduced the concentration of waste gas and fume exhaust. When it comes to water saving, the Group upgraded its reclaimed water system and increased the utilization of reclaimed water.

The Group, during COVID-19 outbreak, has actively responded to the call of the Central Government in ensuring the goal of “six priorities” (employment, people’s livelihoods, the development of market entities, food and energy security, stable operation of industrial and supply chains, as well as smooth functioning at the community level) and “stability in six areas” (employment, finance, foreign trade, foreign investment, domestic investment, and market expectations). To be more specific, the Group has played important roles in epidemic prevention and control, work and production resumption as well as ensuring market supplies. In the fight against the coronavirus, the Group provided significant logistical and material support for health workers at the front line, covering 837 medical institutions in 299 cities of 26 provinces across the nation. In addition, the Group also gave a helping hand to the personnel at the front line of epidemic containment, including staff from government agencies, railway stations, traffic police brigade property management office and sanitation workers, which was widely acknowledged.

The Group has dedicated itself to providing relief supplies, carrying out community investing and offering greater support to the cause of sports. As to caring for the society, the Group provided timely logistical support for those afflicted by natural disasters, including the flood disaster in Yangshuo, Guilin and the tanker truck explosion in Wenling, Zhejiang. Furthermore, the Group also organized community visiting activities nationwide and offered job opportunities for those with disabilities. Meanwhile, the Group attached great importance to carrying out public welfare undertakings through sports, and sponsored sports activities such as marathons and tennis competitions.

The Group has always taken food safety as the foundation and geared its efforts towards deepening food safety system management as well as strictly controlling food quality in line with the aerospace standards. It's worth noticing that the Group had its "Roasted Beef Noodle" and "Express Chef's Noodle" take off with China's new-generation manned spaceship into the space. In addition, the Group has taken proactive actions to ensure all its businesses are in compliance with the American Institute of Baking (AIB) consolidated food safety standards. Food safety education and publicity activities, including "Food Safety Science Popularization Campaign" and "Food Safety Promotion Month", were organized during the first half of 2020.

With an all-time focus on supporting the cause of education, the Group, apart from providing financial aids for students from five top universities in China to study in Japan under the "Master Kong Dream Scholarship Project" in cooperation with Waseda University, has also actively participated in various "Poverty Alleviation through Education" programs and strongly advocated a priority outlined in Stanford's Rural Education Action Program (REAP), namely providing access to online learning for the left-behind children, thus easing the shortage of education resources in the rural areas.

PROSPECTS

What impacts the pandemic will have on the world remains unknown in the second half of 2020. The macro environment will continue to be shrouded in the shadow of uncertainties. However, under the stimulation of China's new economic strategy "Dual Circulation", greater consumption potential is expected to be released and China's domestic economy will improve steadily. In this context, the instant noodle and beverage businesses of the Group could take on a favorable development momentum as domestic economy recovers. And the beverage segment, in particular, is highly likely to keep rebounding when the traditional high season approaches.

Against the backdrop of the "New Normal in the Post-COVID-19 Era", consumption segmentation, channel digitalization, and consumers' demands for health and safety will be increasingly highlighted. The Group will actively respond to the evolving consumption trends and remain adherent to the concept of "Focus on the Mass Consumer and Steadily Expand to High-end Market". In addition to consolidating the mass consumer market in the short term, the Group will forge ahead with continuous efforts in product innovation and high-end and potential markets restructuring in the medium and long term. With respect to brand building, not only will the Group keep up the efforts in promoting brand investment and brand building, it will also resort to multiple innovative measures, as well as through aerospace collaborative endeavors, sports marketing and IP cooperation to implement omni-media marketing and enhance its brand image. In its response to the trends of channel fragmentation and channel sinking, the Group will remain determined in advocating the channel optimization strategy to proactively develop diversified channels, especially in the new retail arena. In terms of the core urban areas, the Group will use digital tools to improve the management and service of retail stores on the basis of direct management of second-tier distributors. As to other areas, the focus will be placed on exploring the market in collaboration with business partners for win-win results. Meanwhile, with a view to significantly increase the terminal penetration coverage of the Group's products, more efforts will be directed at expanding investment in new retails, developing Food Service, and deepening cooperation with new retail operators represented by Alibaba, JD and Eleme.

The Group will press ahead with "Digital Transformation", and increase its investment in digital infrastructure. In the future, more efforts will be made to build a closed data loop, optimize big data and AI technology, and realize business system integration that is more responsive to consumer demands and smarter in decision making.

The Group will unswervingly advance its supply chain optimization strategy to realize further asset-light and asset activation. Moreover, the Group will proactively assume its social responsibility of energy conservation and emission reduction by promoting smart manufacturing and green manufacturing, in an attempt to generate both economic and environmental benefits.

The Food Service Division has initiated operations and taken active measures to tap into the B2B market.

The Group has established collaborative relationships, in various forms, with international partners in areas like raw materials and marketing. Besides, the Overseas Division has been currently in operation and seeking opportunities in the overseas market.

With an aim to stand firm in China's food and beverage market, the Group has always made food safety and management safety its top priorities. Safety represents the paramount concern of the food industry. As a consequence, the Group has been devoted to the field of food safety and established a complete product traceability system as well as a first-class technology research and development center in China. Looking ahead, the Group will continue to lay higher emphasis on food safety and spare no effort to offer safer food to the public. Meanwhile, the Group, featuring constant stable operation, will continue to follow the concept of "Cash Is King" and ensure cash safety. Furthermore, management safety will be maintained via a series of measures including scientific tools and system construction. All in all, with satisfying the needs of the public as the fundamental mission, serving the middle-class as the long-term development goal, and building win-win relationships with business partners and consumers as the cornerstone of success, the Group will press ahead to create great glories again and build itself as a "Chinese Ethical Brand" of food and beverage.

CORPORATE GOVERNANCE

We have, during the six months ended 30 June 2020, complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviations from code provisions A.4.1 and A.4.2. The reasons for these deviations are explained below.

Code provision A.4.1

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. Our Company deviates from this provision because the independent non-executive Directors of our Company do not currently have specific terms of appointment. However, the articles of association of our Company provide that all the Directors are subject to retirement by rotation at least once every three years and at each annual general meeting, one-third of the Directors for the time being or, if the number is not a multiple of three, then, the number nearest to but not less than one-third, shall retire from office by rotation and may offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure our Company's corporate governance practice in this aspect provides sufficient protection for the interests of shareholders to a standard commensurate with that of the CG code.

Code Provision A.4.2

According to code provision A.4.2, each director (including those with a specific appointment period) shall be subject to retirement by rotation at least once every three years. According to the Company's articles of association, the chairman of the Board is not subject to retirement by rotation. He is not included in the number of directors who are required to retire each year. The Board believes that the continuity of the leadership of the chairman of the Board is critical to the stability of the Group's development and the planning, formulation and implementation of long-term strategies and business plans. Accordingly, the Board considers that although the provisions of the above rules deviate from Code Provision A.4.2, it is in the best interests of the Company.

We will periodically review and improve our corporate governance practices with reference to the latest corporate governance developments.

Directors' responsibility for the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. With the assistance of the Finance and Accounting Department which is under the supervision of the Chief Financial Officer of the Company, the Directors ensure that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is in a timely manner.

Audit Committee

The Audit Committee currently has three Independent Non-executive Directors, Mr. Lee Tiong-Hock, Mr. Hsu Shin-Chun and Mr. Hiromu Fukada. Mr. Lee Tiong-Hock is the chairman of the Audit Committee. The latest meeting of the Audit Committee was held to review the results of the Group for the period under review.

Risk Management and Internal Control

The principal spirit of the internal control and risk management procedures established by the Group is in compliance with five elements in the COSO structure, i.e. control environment, risk assessment, control activities, information and communication, and monitoring. The goal of risk management is to keep the overall risk of the Group within acceptable levels and to lay a good foundation for the Group's long-term development. Meanwhile, it can achieve the goal of defining the management structure and authorization so as to enhance the operational performance and efficiency as well as asset safety protection, which ensures the reliability of financial reports while complies with the requirements of national regulations.

Under the supervision of the Board, the Group has established an organization structure, responsibility and authority in the construction of three lines of defense for risk management. The Audit Committee will assist the Board to review the design and operation effectiveness of the risk management and internal control system of the Group. As of 30 June 2020, the Group has been carrying out self-assessment of internal control including finance, information and operation. At the same time, according to operational needs, the Group sorted out core restriction of authority again, announced and published it within the Group. Besides, the Group has also been prompting regulation monitoring and other work. According to the internal audit of the internal control inspection and audit department, we have not identified any material deficiency in risk management and internal control. Therefore, the Board and the Audit Committee believe that the Group's risk management and internal control system are effective.

Model Code For Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF SHARES

There were no purchases, sales or redemptions of the Company's listed shares by the Company or any of its subsidiaries during the period under review.

SHARE OPTION SCHEME

At the extraordinary general meeting (the "EGM") of the Company held on 20 March 2008, the shareholders approved the adoption of the share option scheme (the "2008 Share Option Scheme"), with a term of ten years from the date of adoption.

In view of the expiry of the 2008 Share Option Scheme, the shareholders of the Company adopted the new share option scheme (the "2018 Share Option Scheme") at the EGM held on 26 April 2018, with a term of ten years from the date of adoption.

(a) 2008 Share Option Scheme

During the six months ended 30 June 2020, no share options were granted by the Company in accordance with the terms of the 2008 Share Option Scheme.

The terms of the 2008 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the 2008 Share Option Scheme is shown as below: (Table A)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK\$)
20 March 2008	11,760,000	21 March 2013 to 20 March 2018 (1)	\$9.28
22 April 2009	26,688,000	23 April 2014 to 22 April 2019 (2)	\$9.38
1 April 2010	15,044,000	1 April 2015 to 31 March 2020 (3)	\$18.57
12 April 2011	17,702,000	12 April 2016 to 11 April 2021 (4)	\$19.96
26 April 2012	9,700,000	26 April 2017 to 25 April 2022 (5)	\$20.54
27 May 2013	11,492,000	27 May 2018 to 26 May 2023 (6)	\$20.16
17 April 2014	12,718,500	17 April 2019 to 16 April 2024 (7)	\$22.38
5 June 2015	17,054,000	5 June 2020 to 4 June 2025 (8)	\$16.22
4 July 2016	10,148,000	4 July 2021 to 3 July 2026 (9)	\$7.54
21 April 2017	11,420,000	21 April 2022 to 20 April 2027 (10)	\$10.20

The summary below sets out the details of movement of the share options during the six months ended 30 June 2020 pursuant to the 2008 Share Option Scheme: (Table B)

Name	Date of grant	Exercise price HK\$	Number of share option					Balance as at 30 June 2020	Weighted average closing price immediately before exercise HK\$	Note
			Closing price of the shares on the date of grant HK\$	Balance as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled/lapsed during the period			
Executive Director										
Tseng Chien	1 April 2010	18.57	18.42	176,000	—	—	176,000	—	—	Table A(3)
	12 April 2011	19.96	19.96	206,000	—	—	—	206,000	—	Table A(4)
	26 April 2012	20.54	19.88	112,000	—	—	—	112,000	—	Table A(5)
	27 May 2013	20.16	20.05	140,000	—	—	—	140,000	—	Table A(6)
	17 April 2014	22.38	22.35	164,000	—	—	—	164,000	—	Table A(7)
	5 June 2015	16.22	15.92	232,000	—	—	—	232,000	—	Table A(8)
Wei Hong-Ming	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Wei Hong-Chen	21 April 2017	10.20	10.20	1,000,000	—	—	—	1,000,000	—	Table A (10)
Chief Executive Officer										
James Chun-Hsien Wei	27 May 2013	20.16	20.05	904,000	—	—	—	904,000	—	Table A (6)
	17 April 2014	22.38	22.35	1,148,000	—	—	—	1,148,000	—	Table A (7)
	5 June 2015	16.22	15.92	2,006,000	—	—	—	2,006,000	—	Table A (8)
	4 July 2016	7.54	7.54	4,300,000	—	—	—	4,300,000	—	Table A (9)
	21 April 2017	10.20	10.20	4,000,000	—	—	—	4,000,000	—	Table A (10)
Substantial Shareholder										
Wei Ing-Chou [#]	1 April 2010	18.57	18.42	2,200,000	—	—	2,200,000	—	—	Table A (3)
	12 April 2011	19.96	19.96	2,264,000	—	—	—	2,264,000	—	Table A (4)
	26 April 2012	20.54	19.88	1,368,000	—	—	—	1,368,000	—	Table A (5)
	27 May 2013	20.16	20.05	1,390,000	—	—	—	1,390,000	—	Table A (6)
	17 April 2014	22.38	22.35	1,486,000	—	—	—	1,486,000	—	Table A (7)
	5 June 2015	16.22	15.92	1,726,000	—	—	—	1,726,000	—	Table A (8)
Other employees in aggregate	1 April 2010	18.57	18.42	6,261,000	—	—	6,261,000	—	—	Table A (3)
	12 April 2011	19.96	19.96	7,822,000	—	—	—	7,822,000	—	Table A (4)
	26 April 2012	20.54	19.88	5,186,000	—	—	120,000	5,066,000	—	Table A (5)
	27 May 2013	20.16	20.05	5,756,000	—	—	148,000	5,608,000	—	Table A (6)
	17 April 2014	22.38	22.35	6,657,000	—	—	190,000	6,467,000	—	Table A (7)
	5 June 2015	16.22	15.92	10,728,000	—	—	1,158,000	9,570,000	—	Table A (8)
	4 July 2016	7.54	7.54	4,092,000	—	200,000	120,000	3,772,000	13.84	Table A (9)
	21 April 2017	10.20	10.20	4,770,000	—	—	200,000	4,570,000	—	Table A (10)
Total				77,094,000	—	200,000	10,573,000	66,321,000		

For the period of six months ended 30 June 2020, 200,000 options had been exercised under the 2008 Share Option Scheme. Weighted average exercise price was HK\$7.54 and the weighted average market closing price before the date of exercise was HK\$13.84.

[#] Wei Ing-Chou was the former Chairman of the Board and a former Executive Director. He is a beneficiary of two trusts which holds 25% interests in Profit Surplus Holdings Limited and Profit Surplus 3 Holdings Limited, respectively. Profit Surplus Holdings Limited is indirectly interested in 75.064% of Ting Hsin (Cayman Islands) Holding Corp. Profit Surplus 3 Holdings Limited is indirectly interested in 17.835% of Ting Hsin (Cayman Islands) Holding Corp. Ting Hsin (Cayman Islands) Holding Corp. directly holds 1,882,927,866 shares of the Company.

(b) **2018 Share Option Scheme**

The terms of the 2018 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. Detailed arrangement for the 2018 Share Option Scheme is shown as below: (Table C)

Date of grant	Number of share options granted	Exercisable period	Exercise price (HK\$)
27 April 2018	2,478,000	30 April 2021 to 26 April 2028 (1a)	\$16.18
27 April 2018	5,626,000	30 April 2021 to 26 April 2024 (1b)	\$16.18

The summary below sets out the details of movement of the share options during the six months ended 30 June 2020 pursuant to the 2018 Share Option Scheme: (Table D)

Name	Date of grant	Exercise price HK\$	Closing price of the shares on the date of grant HK\$	Number of share option				Balance as at 30 June 2020	Weighted average closing price immediately before exercise HK\$	Note
				Balance as at 1 January 2020	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period			
Executive Director										
Wei Hong-Ming	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Wei Hong-Chen	27 April 2018	16.18	15.02	385,000	—	—	—	385,000	—	Table C (1a)
	27 April 2018	16.18	15.02	98,000	—	—	—	98,000	—	Table C (1b)
Chief Executive Officer										
James Chun-Hsien	27 April 2018	16.18	15.02	1,708,000	—	—	—	1,708,000	—	Table C (1a)
Wei	27 April 2018	16.18	15.02	797,000	—	—	—	797,000	—	Table C (1b)
Substantial Shareholder										
Wei Ing-Chou [#]	27 April 2018	16.18	15.02	470,000	—	—	—	470,000	—	Table C (1b)
Other employees in aggregate										
	27 April 2018	16.18	15.02	2,322,000	—	—	—	2,322,000	—	Table C (1b)
Total				6,263,000	—	—	—	6,263,000	—	

During the six months ended 30 June 2020, no share options were exercised under the terms of the 2018 Share Option Scheme.

[#] Wei Ing-Chou was the former Chairman of the Board and a former Executive Director. He is a beneficiary of two trusts which holds 25% interests in Profit Surplus Holdings Limited and Profit Surplus 3 Holdings Limited, respectively. Profit Surplus Holdings Limited is indirectly interested in 75.064% of Ting Hsin (Cayman Islands) Holding Corp. Profit Surplus 3 Holdings Limited is indirectly interested in 17.835% of Ting Hsin (Cayman Islands) Holding Corp. Ting Hsin (Cayman Islands) Holding Corp. directly holds 1,882,927,866 shares of the Company.

BOARD OF DIRECTORS

As at the date of this report, Mr. Wei Hong-Ming, Mr. Junichiro Ida, Mr. Wei Hong-Chen, Mr. Koji Shinohara, Mr. Yuko Takahashi and Ms. Tseng Chien are Executive Directors. Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada are Independent Non-executive Directors.

By Order of the Board
Wei Hong-Ming
Chairman

Hong Kong, 24 August 2020

Website: <http://www.masterkong.com.cn>
<http://www.irasia.com/listco/hk/tingyi>

* *For identification purpose only*